

MARKETBEAT

Central Valley

Industrial Q1 2019



CENTRAL VALLEY INDUSTRIAL

Economic Indicators*

	Q1 18	Q1 19	12-Month Forecast
Central Valley Employment	418K	421K	▲
Central Valley Unemployment	6.3%	6.1%	▼
U.S. Unemployment	4.1%	3.8%	▼

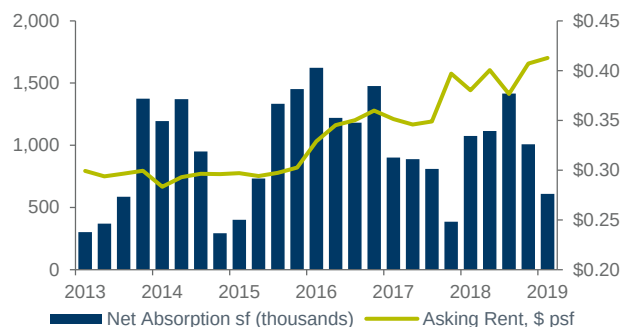
*Q1 19 data based on the average of January and February values

Market Indicators**

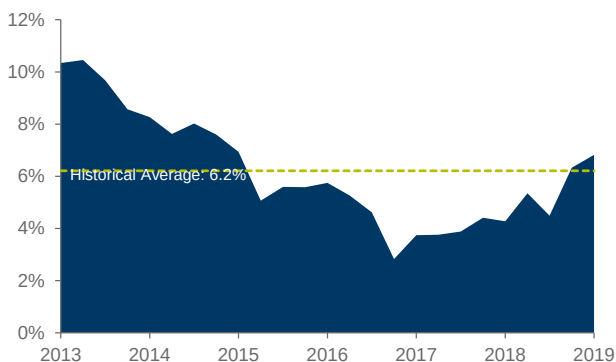
	Q1 18	Q1 19	12-Month Forecast
Overall Vacancy	4.3%	6.8%	▼
Overall Net Absorption (sf)	1.9M	312K	▲
Under Construction (sf)	7.5M	5.8M	▲
Average Asking Rent*	\$0.38	\$0.41	▲

*Rental rates reflect NNN asking \$PSF/month

Overall Net Absorption/Asking Rent (NNN) 4-QTR TRAILING AVERAGE



Overall Vacancy



Construction Delivers Preleased; Existing Vacancy Ticks Up

The Central Valley, comprised of the Stockton and Modesto Metropolitan Statistical Areas (MSAs) logged positive employment growth, with 3,000 non-farm payroll positions added to the region over the last year, bringing regional employment to 421,000. Accordingly with the addition of these jobs, unemployment dropped over the last 12 months to 6.1%, representing a decline of 20 basis points (bps) from 6.3%. Meanwhile, the labor force increased 1.3% year over year (YOY), which corresponds with the large volume of companies that have moved to or expanded in the region over the last year due to the market's strong economic fundamentals, expanding industrial building base, and comparative affordability to the coastal markets.

Vacancy in the Central Valley industrial market was 6.8% at the end of the first quarter, having risen 50 bps from the previous quarter and 250 bps YOY. The rise was manifested mainly in existing product—of the 1.0 million square feet (msf) delivered in the first quarter, 93% was preleased—and was entirely concentrated in San Joaquin County, where 795,454 square feet (sf) of existing space hit vacancy statistics in the first quarter. Additionally, net absorption totaled positive 312,137 sf, a remarkable rebound from negative 1.21 msf in the fourth quarter, mainly due to the preleased construction deliveries. Despite the rise, vacancy remains near historically low levels and demand remains strong for large blocks of modern distribution space. Indeed, occupancy growth totaled 4.3 msf in the past year, and has recorded strong and consistent annual growth for the past nine years. Sublease space is completely nonexistent market-wide as Pactra USA's sublease of 62,500 sf at Tracy Distribution Center was absorbed in the first quarter. While vacancy may rise in the short term due to the volume of new construction slated for delivery, a healthy portion of these projects are build-to-suits or are preleased, and vacancy is ultimately forecast to decline over the course of the next year. Net absorption is correspondingly expected to tick up in the coming months especially in Stockton, Tracy, and Lathrop where the majority of new product has been delivered in the past two years and where all current construction is under way.

In recent years, the Central Valley has grown into a magnet for regional and national credit tenants and major distributors seeking large blocks of space in Northern California. With large tracts of developable land and competitive rents, the Central Valley is becoming a viable option for large users seeking to relocate from the comparatively more expensive Bay Area industrial markets where 100,000+ square foot (sf) options have been much more limited.

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That said, the Bay Area construction pipeline continues to swell, though the Central Valley will remain attractive due to lower pricing and proximity to larger consumer markets. Furthermore, users with requirements greater than 300,000 sf will necessarily continue to look to the Central Valley due to the fact that existing spaces in this size segment are very limited in the Bay Area while there are several new blocks in this size range that are shell complete and ready for occupancy in the Central Valley.

THE CENTRAL VALLEY WILL REMAIN ATTRACTIVE DUE TO LOWER PRICING AND PROXIMITY TO LARGER CONSUMER MARKETS...

Asking rents in the Central Valley were \$0.41 per square foot (psf) on a monthly triple net basis, recording no change from the previous quarter and up three cents YOY. The decline is not necessarily significant and is due to the fact that nearly all first quarter construction deliveries were preleased, and the space that did become available was mainly in second and third generation existing product. Furthermore, not captured in rental statistics is the bulk of space that came available in the last year that is being marketed unpriced. Rents will tick up over the next year as modern blocks of space hits the market and the portion of the pipeline that is unspoken for—totaling roughly 3.1 msf—delivers.

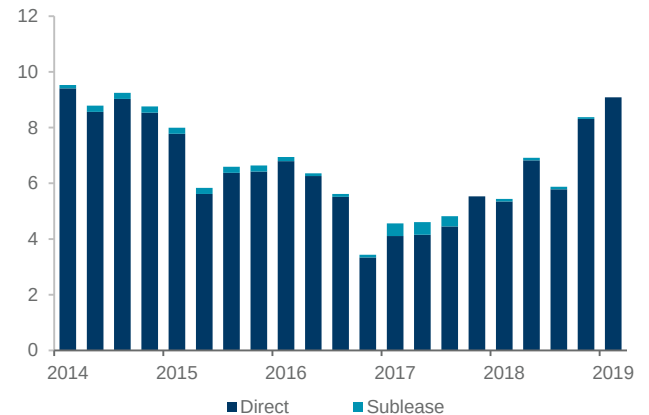
Essential to the story of the Central Valley industrial market is the volume of new construction delivered in recent years, which is fundamentally modernizing the market's building base. There have been 20.1 msf of deliveries since 2010, representing an 18.7% increase in the region's building base, while 5.8 msf is currently under construction. Of these projects, 3.1 msf is being built on a speculative basis, with the pipeline likely to increase further with new projects at various stages of planning. Though some of these projects will likely not deliver preleased, they will generate even more interest from large requirements in the region.

Outlook

- Net absorption totaled to 312,137 sf in the first quarter and occupancy growth is expected remain positive over the next year
- 6.9 msf of new product was delivered in 2018, while 5.8 msf is currently under construction

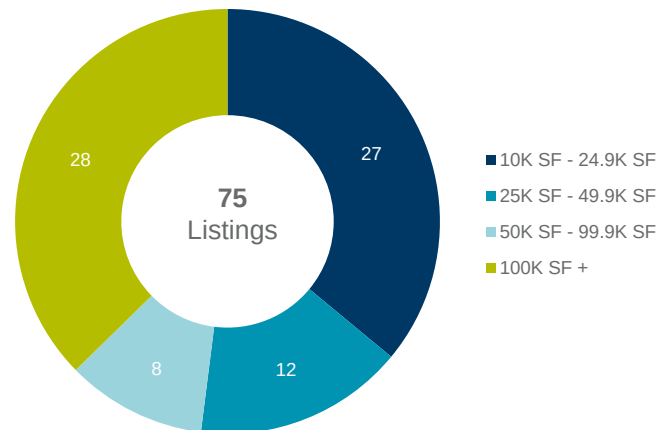
Direct & Sublease Available Space

SUBLEASE SPACE NONEXISTENT



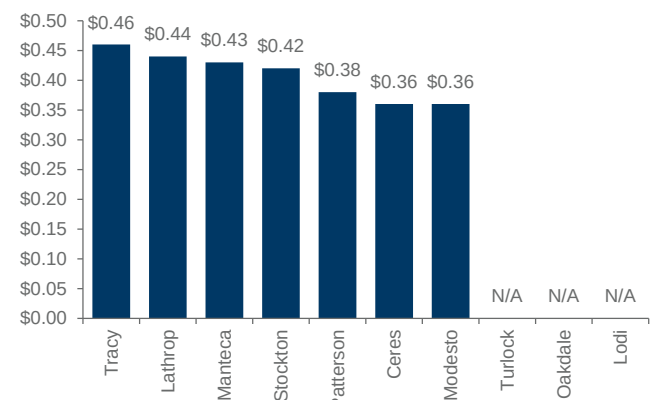
Availabilities by Size Segment

AMPLE SUPPLY IN ALL SIZE RANGES



Overall Average Asking Rate by Submarket (NNN)

TRACY COMMANDS HIGHEST RENTS IN MARKET



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SUBMARKET	INVENTORY	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET OVERALL ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL WEIGHTED AVERAGE ASKING RENT
Lodi	8,918,846	0	0	0.0%	0	0	0	N/A
Stockton	44,779,241	0	4,105,873	9.2%	-476,478	-476,478	1,088,573	\$0.42
Lathrop	12,121,044	0	487,550	4.0%	-49,403	-49,403	1,970,924	\$0.44
Tracy	23,895,996	0	1,761,859	7.4%	136,080	136,080	1,476,914	\$0.46
Manteca/Ripon	5,287,968	0	163,858	3.1%	551,475	551,475	747,975	\$0.44
San Joaquin County	95,003,095	0	6,519,140	6.9%	161,674	161,674	5,283,756	\$0.43
Oakdale	2,103,591	0	0	0.0%	0	0	0	N/A
Modesto	25,676,496	0	1,768,539	6.9%	150,463	150,463	0	\$0.36
Ceres	363,585	0	23,469	6.5%	0	0	0	\$0.36
Turlock	3,887,867	0	62,279	1.6%	0	0	0	N/A
Patterson	6,230,202	0	712,130	11.4%	0	0	0	\$0.35
Stanislaus County	38,261,741	0	2,566,417	6.7%	150,463	150,463	0	\$0.36
TOTAL	133,264,836	0	9,085,557	6.8%	312,137	312,137	5,283,756	\$0.41

*Rental rates reflect asking \$PSF/month converted to Triple Net

**Entries not reflective of U.S. MarketBeat table

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
931 Runway Drive	254,088	Cal Freight	Beard Land Company	Renewal	Stockton
1030 Runway Drive	250,000	Prism Team Services	Prologis	New Lease	Stockton
4000 Finch Road	150,000	Prism Team Services	Panattoni Investments	Sublease	Modesto

Key Sale Transactions Q1 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
4532 Newcastle Road	1,122,341	Bentall Kennedy	CT Realty Investors	\$105,300,000 / \$94	Stockton
1624 Army Court	655,976	Dermody Properties	Toys "R" Us, Inc	\$35,275,000 / \$54	Stockton
3923 B Street S	650,000	Oxford Properties Group	Ivanhoe Cambridge	\$29,179,386 / \$88	Stockton
2131 Louis Avenue W	622,959	Colony Capital	Dermody Properties	\$70,400,000 / \$113	Lathrop
1340 Dupont Court	286,072	Colony Capital	Dermody Properties	\$29,188,137 / \$102	Manteca

A map of the San Francisco Bay Area and Central Valley, California, showing office locations. Yellow dots indicate office locations in cities such as Walnut Creek, Dublin, Livermore, Fremont, Palo Alto, Los Altos, San Jose, Lodi, Stockton, Lathrop, Manteca, Tracy, Modesto, Ceres, Turlock, Patterson, Newman, and La Grange. Major highways and geographical features are also shown.

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